

ORIGINAL

OPEN MEETING

MEMORANDUM RECEIVED



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TO: THE COMMISSION

2009 JUL 15 P 12: 07

Arizona Corporation Commission

DOCKETED

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

JUL 15 2009

DATE: July 15, 2009

DOCKETED BY	
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RE: DUNCAN VALLEY ELECTRIC COOPERATIVE INC. – APPLICATION FOR APPROVAL OF ITS GAS DIVISION'S PURCHASED GAS ADJUSTOR SURCHARGE AND CALCULATION (DOCKET NO. G-02528A-09-0237)

Background

Duncan Valley Electric Cooperative ("Duncan" or "the Cooperative") is an electric cooperative which, through its Gas Division, distributes natural gas in Greenlee County, Arizona. As of May 2009, its Gas Division served 2,729 customers.

On May 14, 2009, Duncan filed an application with the Commission for approval of three changes to its Purchased Gas Adjustor ("PGA"): (i) for a change in the way Duncan's PGA rate is calculated; (ii) to eliminate the current \$0.10 limit on how much the PGA rate can increase or decrease on a month-to-month basis; and (iii) for a surcredit, or negative surcharge, of \$0.10 per therm in order to pay back an over-collected balance for its PGA.

The Current PGA Mechanism: Twelve-month Rolling Average, \$0.10 Limit and \$35,000 Bank Balance Threshold

Like other gas utilities, Duncan is not allowed to make a profit on the cost of natural gas, but it is allowed to recover the cost of the gas it provides, including transportation costs, through a PGA rate. Currently, Duncan's PGA rate is calculated based on a twelve-month rolling average, with a \$0.10 monthly bandwidth.¹ The rolling average and bandwidth are designed to reduce the volatility of gas costs passed on to customers. The rolling average produces a more predictable and consistent PGA rate, while the bandwidth provides another brake on volatility by limiting changes (increases or decreases) to no more than \$0.10 per therm, compared to the previous month's PGA rate. These features of the PGA mechanism limit rate shocks to Duncan's customers.

Because it is based on a rolling average, and because the actual cost of gas varies over time, each month Duncan either over- or under-recovers its costs by varying amounts. Whether

¹ In its rate case concluding in March 2006 (Decision No.68599), the Commission changed the limit on changes on the PGA rate from \$0.10 per therm per year to \$0.10 per therm per month. A letter from Commission Staff to Duncan, dated April 21, 2006, provided clarification on the operation of the PGA mechanism (Docket No. G-02528A-05-0314).

negative or positive, the monthly difference between the PGA rate and what Duncan actually pays for gas and transportation is tracked and reported in the Cooperative's adjustor bank balance.

Duncan is required to file for a surcharge (or surcredit) when its bank balance, either negative or positive, reaches \$35,000. The \$35,000 threshold on balances is designed to ensure that over-collections and under-collections are resolved on a timely basis and before large balances accumulate. The present application does not propose any changes to the threshold.

Proposed Changes to the PGA Mechanism

Duncan proposes to change from a twelve-month rolling average to a six-month rolling average, stating that basing the PGA rate on a shorter period would keep the PGA rate closer to Duncan's actual gas costs. Duncan states that the twelve-month rolling average has resulted in a larger over-collection than would have existed with a six-month rolling average.

Duncan has also proposed that the existing \$0.10 per therm per month limit be eliminated. The Cooperative cites the time and expense of filing for changes in the adjustor larger than \$0.10 as its reason for seeking the change.

Staff Recommendation Regarding Proposed Changes to the PGA Mechanism

Staff is opposed to revising the rolling average and eliminating the \$0.10 limit. The Cooperative's proposed changes to the PGA mechanism would affect rates and alter the ways in which costs are recovered. Staff believes that such fundamental changes to the functioning of the PGA mechanism would be more appropriately considered and addressed in a rate case.

Staff also notes that basing the rolling average on six months would not only incorporate fewer months of data, but could also eliminate seasonal variations in price. For these reasons, although changing to a six-month rolling average would keep the PGA rate closer to Duncan's actual gas costs, it would also increase the volatility of costs passed on to customers.

With respect to eliminating the \$0.10 limit, Staff believes that Duncan already has significant latitude for passing on changes in cost through the PGA mechanism without Commission approval; removing the limit altogether would potentially increase Duncan ratepayers' exposure to rate shock, in the event of dramatic increases in the price of natural gas.

Staff recommends that the proposed changes to the Duncan PGA mechanism not be made, and that the PGA rate continue to be calculated based on a twelve-month rolling average, with a \$0.10 month-to-month limit on changes to the PGA rate.

Proposed Surcredit

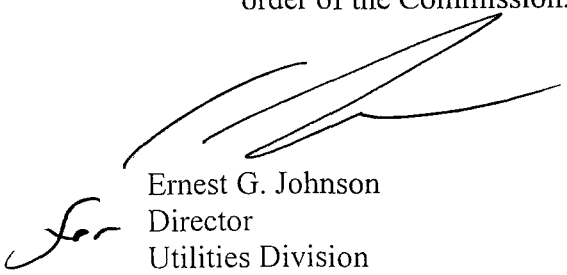
Dramatic changes in the price of natural gas, as occurred in 2008, increase the difference between the rolling average and what the Cooperative actually pays for gas, thereby contributing to a larger PGA bank balance. In its application, Duncan reports that its over-collected bank balance was approximately \$60,000 as of May 31, 2009. The May PGA Adjustor report indicates that this amount has now risen to \$78,428.

Duncan proposes a PGA surcredit of \$0.10 per therm so that the Cooperative can credit the over-collection back to its customers. Average summer usage for Duncan's Residential customers is 20 therms, while average winter usage is 75 therms, meaning Duncan's proposed surcredit would result in an average \$2.00 reduction on summer bills and an average \$7.50 reduction on winter bills.

Staff concurs that a surcredit is necessary in order to return over-collected monies to Duncan customers and reduce the bank balance. Staff recommends that Duncan's request for a \$0.10 per therm surcredit be approved and that the surcredit remain in place until the bank balance is reduced to zero or until further order of the Commission.

Summary of Staff Recommendations

- Staff recommends that the proposed changes to the Duncan PGA mechanism not be made, and that the PGA rate continue to be calculated based on a twelve-month rolling average, with a \$0.10 month-to-month limit on changes to the PGA rate.
- Staff recommends that Duncan's request for a \$0.10 per therm surcredit be approved and that the surcredit remain in place until the bank balance is reduced to zero or until further order of the Commission.



Ernest G. Johnson
Director
Utilities Division

EGJ:JMK:lhmm\MAS

ORIGINATOR: Julie McNeely-Kirwan

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
 Chairman

3 GARY PIERCE
 Commissioner

4 PAUL NEWMAN
 Commissioner

5 SANDRA D. KENNEDY
 Commissioner

6 BOB STUMP
 Commissioner

7
8 IN THE MATTER OF THE APPLICATION
9 OF DUNCAN VALLEY ELECTRIC
10 COOPERATIVE INC. FOR APPROVAL OF
11 ITS PURCHASED GAS ADJUSTOR
12 SURCHARGE AND CALCULATION

DOCKET NO. G-02528A-09-0237

DECISION NO. _____

ORDER

13 Open Meeting
14 July 28 and 29, 2009
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 Background

19 1. Duncan Valley Electric Cooperative ("Duncan" or "the Cooperative") provides
20 natural gas service through its Gas Division within portions of Arizona, pursuant to authority
21 granted by the Arizona Corporation Commission ("Commission").¹

22 2. Duncan is an electric cooperative which, through its Gas Division, distributes
23 natural gas in Greenlee County, Arizona. As of May 2009, its Gas Division served 2,729
24 customers.

25 3. On May 14, 2009, Duncan filed an application with the Commission for approval of
26 three changes to its Purchased Gas Adjustor ("PGA"): (i) for a change in the way Duncan's PGA
27 rate is calculated; (ii) to eliminate the current \$0.10 limit on how much the PGA rate can increase

28 _____
¹ Duncan's Gas Division was previously known as Duncan Rural Services Corporation ("DRSC"). DRSC was dissolved in accordance with Decision No. 69679 (June 28, 2007). Its assets, certain liabilities and Certificate of Convenience and Necessity ("CC&N") were transferred to Duncan's Gas Division as part of that dissolution.

1 or decrease on a month-to-month basis; and (iii) for a surcredit, or negative surcharge, of \$0.10
2 per therm in order to pay back an over-collected balance for its PGA.

3 The Current PGA Mechanism: Twelve-month Rolling Average, \$0.10 Limit and \$35,000 Bank
4 Balance Threshold

5 4. Like other gas utilities, Duncan is not allowed to make a profit on the cost of
6 natural gas, but it is allowed to recover the cost of the gas it provides, including transportation
7 costs, through a PGA rate. Currently, Duncan's PGA rate is calculated based on a twelve-month
8 rolling average, with a \$0.10 monthly bandwidth.² The rolling average and bandwidth are
9 designed to reduce the volatility of gas costs passed on to customers. The rolling average produces
10 a more predictable and consistent PGA rate, while the bandwidth provides another brake on
11 volatility by limiting changes (increases or decreases) to no more than \$0.10 per therm, compared
12 to the previous month's PGA rate. These features of the PGA mechanism limit rate shocks to
13 Duncan's customers.

14 5. Because it is based on a rolling average, and because the actual cost of gas varies
15 over time, each month Duncan either over- or under-recovers its costs by varying amounts.
16 Whether negative or positive, the monthly difference between the PGA rate and what Duncan
17 actually pays for gas and transportation is tracked and reported in the Cooperative's adjustor bank
18 balance.

19 6. Duncan is required to file for a surcharge (or surcredit) when its bank balance,
20 either negative or positive, reaches \$35,000. The \$35,000 threshold on balances is designed to
21 ensure that over-collections and under-collections are resolved on a timely basis and before large
22 balances accumulate. The present application does not propose any changes to the threshold.

23 Proposed Changes to the PGA Mechanism

24 7. Duncan proposes to change from a twelve-month rolling average to a six-month
25 rolling average, stating that basing the PGA rate on a shorter period would keep the PGA rate
26

27 ² In its rate case concluding in March 2006 (Decision No.68599), the Commission changed the limit on changes on the
28 PGA rate from \$0.10 per therm per year to \$0.10 per therm per month. A letter from Commission Staff to Duncan,
dated April 21, 2006, provided clarification on the operation of the PGA mechanism (Docket No. G-02528A-05-
0314).

1 closer to Duncan's actual gas costs. Duncan states that the twelve-month rolling average has
2 resulted in a larger over-collection than would have existed with a six-month rolling average.

3 8. Duncan has also proposed that the existing \$0.10 per therm per month limit be
4 eliminated. The Cooperative cites the time and expense of filing for changes in the adjustor larger
5 than \$0.10 as its reason for seeking the change.

6 Staff Recommendation Regarding Proposed Changes to the PGA Mechanism

7 9. Staff is opposed to revising the rolling average and eliminating the \$0.10 limit. The
8 Cooperative's proposed changes to the PGA mechanism would affect rates and alter the ways in
9 which costs are recovered. Staff believes that such fundamental changes to the functioning of the
10 PGA mechanism would be more appropriately considered and addressed in a rate case.

11 10. Staff also notes that basing the rolling average on six months would not only
12 incorporate fewer months of data, but could also eliminate seasonal variations in price. For these
13 reasons, although changing to a six-month rolling average would keep the PGA rate closer to
14 Duncan's actual gas costs, it would also increase the volatility of costs passed on to customers.

15 11. With respect to eliminating the \$0.10 limit, Staff believes that Duncan already has
16 significant latitude for passing on changes in cost through the PGA mechanism without
17 Commission approvals. Removing the limit altogether would potentially increase Duncan
18 ratepayers' exposure to rate shock, in the event of dramatic increases in the price of natural gas.

19 12. Staff has recommended that the proposed changes to the Duncan PGA mechanism
20 not be made, and that the PGA rate continue to be calculated based on a twelve-month rolling
21 average, with a \$0.10 month-to-month limit on changes to the PGA rate.

22 Proposed Surcredit

23 13. Dramatic changes in the price of natural gas, as occurred in 2008, increase the
24 difference between the rolling average and what the Cooperative actually pays for gas, thereby
25 contributing to a larger PGA bank balance. In its application, Duncan reports that its over-
26 collected bank balance was approximately \$60,000 as of May 31, 2009. The May PGA Adjustor
27 report indicates that this amount has now risen to \$78,428.

28 ...

1 14. Duncan proposes a PGA surcredit of \$0.10 per therm so that the Cooperative can
2 credit the over-collection back to its customers. Average summer usage for Duncan's Residential
3 customers is 20 therms, while average winter usage is 75 therms, meaning Duncan's proposed
4 surcredit would result in a \$2.00 reduction on summer bills and a \$7.50 reduction on winter bills.

5 15. Staff concurs that a surcredit is necessary in order to return over-collected monies
6 to Duncan customers and reduce the bank balance. Staff has recommended that Duncan's request
7 for a \$0.10 per therm surcredit be approved and that the surcredit remain in place until the bank
8 balance is reduced to zero or until further order of the Commission

9 CONCLUSIONS OF LAW

10 1. Duncan is an Arizona public service corporation within the meaning of Article XV,
11 Section 2, of the Arizona Constitution.

12 2. The Commission has jurisdiction over Duncan and over the subject matter of the
13 application.

14 3. The Commission, having reviewed the application and Staff's Memorandum dated
15 July 15, 2009, concludes that it is in the public interest to approve the negative surcharge, or
16 surcredit, of \$0.10, and to not approve the changes to the PGA mechanism proposed by Duncan.

17 ORDER

18 IT IS THEREFORE ORDERED that the proposed changes to the Duncan Valley Electric
19 Cooperative PGA mechanism not be made, and that the PGA rate continue to be calculated based
20 on a twelve-month rolling average, with a \$0.10 month-to-month limit on changes to the PGA rate.

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1 IT IS FURTHER ORDERED the surcredit be set at \$0.10 per therm and that it continue
2 until the bank balance reaches zero or until further order of the Commission.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

5
6 CHAIRMAN

COMMISSIONER

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9 COMMISSIONER

COMMISSIONER

COMMISSIONER

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11 IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto, set my hand and caused the official seal of this
14 Commission to be affixed at the Capitol, in the City of
15 Phoenix, this _____ day of _____, 2009.

16
17 MICHAEL P. KEARNS
18 INTERIM EXECUTIVE DIRECTOR

19 DISSENT: _____

20
21 DISSENT: _____

22 EGJ:JMK:lh\MAS
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1 SERVICE LIST FOR: Duncan Valley Electric Cooperative
2 DOCKET NO. G-02528A-09-0237

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